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SOME INTERNATIONAL FINANCIAL OBLIGATIONS OF THE UNITED STATES AND ONE WAY OF MEETING THEM

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BEFORE the Great War the United States was a debtor nation, its indebtedness to Europe being estimated at \$5,000,000,000, while it paid an annual tribute to Europe in the form of interest, dividends, freight charges, insurance, commission, *etc.* of \$400,000,000 to \$500,000,000. The United States had no difficulty in making this payment, because Europe needed food products and raw materials for her manufactures which we could supply more cheaply and with greater certainty than any other country. Consequently, an equilibrium was established between our obligations to Europe and her purchases from us. A country which is a large producer of raw materials, if it desires to dispose of those materials, should either be a debtor nation paying a large tribute to other countries or a large importer of the finished products of other countries. The United States paid its tribute in raw materials which it had to spare and which other countries purchased, because it helped us and them to maintain the equilibrium. It was not to our advantage to get out of debt, nor to the interest of Europe to have us free of obligations to her. Although the United States had increased greatly in wealth in recent years and had become richer as a nation than any of the nations of Europe, its debt to Europe was reducing but slowly, the natural tendency of a wealthy nation to pay its debts being offset largely by the willingness of Europeans to invest their money here where it would yield greater returns than if invested in their own countries and more certain returns than if invested in other parts of the world. However, there was a tendency, growing stronger in late years, to discharge that indebtedness, and, had the same conditions continued, it is probable that, in a comparatively

short time, we would have changed from a debtor to a creditor nation. As countries become richer the average returns on capital become less, which tendency would have checked the flow of European money for investment, while we should have used a greater proportion, perhaps all, of our food and raw material ourselves, and a new international equilibrium would have been established. This equilibrium is the true "balance of trade", signifying that what a country imports it pays for in exports, and that what it exports it receives payment for in imports, including in the terms exports and imports not only consumable goods, but gold, credits and services as well.

This equilibrium in trade between nations must exist; otherwise international trade could not be carried on continuously. England, in spite of her enormous exports of finished products, imports in consumable goods much more than she exports, because her production of food and raw materials is small compared with her requirements. But England collected such a large tribute from other countries in the form of interest, dividends, rents, ship charges, banking profits, *etc.*, that not only was she able to pay for the excess of her imports over her exports, but she was left a large creditor of other countries. Had she demanded payment in gold or goods, she would have destroyed the market for the goods she desired to dispose of. To maintain the necessary equilibrium and retain her markets she was driven to invest in foreign countries this large balance, whereby she not only extended her markets but increased the annual tribute due to her.

The war destroyed this equilibrium. It brought about changes too suddenly to permit a readjustment in international financial relations. The United States changed from a debtor nation to a creditor nation without the corresponding changes that would have accompanied such a transformation if this condition had been brought about gradually. Not only has our tribute to Europe been wiped out and replaced by a tribute due from Europe to us, but there has arisen an entirely new demand on the part of Europe for our finished products which still further increases her obligations to us. Had we continued to be a debtor nation, had our debt to Europe increased, and had we become more and more dependent on Europe for in-

vestment funds, shipping etc., Europe's increased purchases would have been offset by the increased tribute we owed to her. But Europe was unable to provide herself with the enormous quantities of raw and finished goods required, and the United States was able to furnish them to her. Besides, Europe was not able to produce the finished products she had been selling in the United States. As a result of all these tendencies working against Europe and in favor of the United States, the equilibrium became so violently disturbed that Europe is not able to pay for what she is obliged to have. Refusing our assistance to meet the requirements of Europe at this time would be very serious. Aside from the moral duty to lend a helping hand to the needy, particularly those in the devastated parts of France and Belgium, there are powerful political, economic and social reasons why we should make every effort possible to meet their requirements. Supplying the needs of Europe will go far toward stabilizing conditions there, by feeding the hungry, enabling the industries of Europe to resume production, furnishing employment for millions of workers, providing food for the hungry and clothing and shelter for the naked and thereby lessening, if not destroying, the unrest and discontent that encourages the spread of Bolshevism. Furnishing these necessities to Europe means increased production and profit to us and maintaining our large industrial population at work at a time when there is industrial unrest the world over, and when serious industrial disturbances in this country might, and probably would, aggravate conditions which threaten a cataclysm more serious in its effects than the Great War itself.

There are immensely powerful and practical reasons why the people of the United States should meet the requirements of the people of Europe, aside from our natural duty and desire to aid those in distress. It must be understood that Europe is not bankrupt. She has enormous resources which are temporarily unproductive but which, when restored to their *ante-bellum* productivity, are capable of supporting the dense population that survives and that demands an opportunity of being restored to a self-supporting basis. The very density of the population ensures a rapid restoration of wealth. The trained hands are ready and willing to work as soon as work is offered them.

In certain parts of Europe, probably the greater part, the people are now on a self-sustaining basis. They are not within the devastated area, and the actualities of war have not touched them. All of Germany, the British Isles, and the neutral nations come within this category. It is probable that the people in these districts can produce their normal supply and need no assistance other than credits that can be obtained from their banks and such as their own governments can give them. But in the devastated regions, notably Belgium and Northern France, where before the war were populous communities, engaged in the production of thousands of articles that contribute to the wealth of the world, and who, as a result of their labor, supplied themselves with food, clothing and shelter, who supported their governments with the taxes they paid and filled the banks with their savings, millions are now idle and helpless because of the destruction of homes, factories, machinery, mines, bridges, and railroads and other things necessary to the production and distribution of their goods. If these were restored they could support themselves; until they are restored they cannot do so. They are not able to pay for the materials that are necessary to reconstruct their houses and factories, to purchase machinery, to restore their mines, roads, bridges and railroads. Many are not able to pay for food to maintain themselves and their families until they become producers again. The amount of money necessary for these purposes is several billions of dollars, and many years of production on a scale equal to or greater than that carried on before the war will be necessary before such an amount can be raised for that purpose, and, in the absence of these things,—machinery, buildings and means of transportation, production on a great scale is impossible. It is, therefore, evident that these people must be furnished with these necessities as soon as possible, but, as they cannot pay for them, some way of furnishing credit must be found for them.

This credit, being long-time credit, is not such as banks can extend, though under the spur of necessity banks can, and will, go much farther in granting credits than they would, or should, do in normal times. But banks have so many demands on them at this time that every effort should be made to relieve them to as great an extent as possible of the burden of long-

time credits, and, furthermore, the billions of dollars of long-time credits necessary, even if divided among the banks of the United States and Europe, would so congest their resources as seriously to impair their functions. Aid which will be extended by governments can only be raised by taxation or borrowing, and when one considers what amounts governments must raise to meet obligations already incurred, it is evident that such aid must be limited.

The best suggestion that has been made as to issuing these securities is by means of a corporation of which the capital stock shall be owned in whole or in part by the United States Government. I should prefer to have the thing done by private enterprise. One "Investment Trust" has already been organized for this purpose and I hope many others will be created, because Europe needs all the long-time credit that we can give her, but these "Investment Trusts" will appeal only to experienced investors and not to the mass of the people, who are embryo savers and investors. I do not know that a corporation can be successfully organized with part private and part governmental capital and am inclined to believe that it will be more practical for the government to own all the stock. There is no danger in this under the plan about to be described, as the duties of this corporation would be largely mechanical consisting of the conversion of foreign obligations to domestic obligations.

The corporation will issue bonds, or more correctly speaking, debentures, payable at such times as will conform most closely to the needs of the people of Europe, as, for example, some maturing in one year, some in two and so on, up to ten years if that is long enough. The debentures should bear a rate of interest that will be sufficiently high to induce people to buy them, say, six per cent., and should be issued in as small denominations as ten dollars. Every bank in the country should be made a fiscal agent for the sale of these securities and receive a commission on one-half of one per cent. for selling them, or whatever is decided upon as a reasonable compensation. The debentures would be issued against foreign securities offered to the corporation as the basis for funds, all the debentures should be issued against all the securities, and, of course, no more debentures would ever be issued than

foreign securities held by the corporation. The funds realized from the debentures would not be sent to Europe but would be used in this country for the purchase of goods produced here, exactly the same as the advances made by the United States Government to the allied governments were used.

In order that this corporation shall not be compelled to accept foreign securities or to investigate their value, which it cannot well do, only the obligations of the foreign governments themselves should be taken by this corporation as a basis for its debentures. The peoples of the countries of Europe hold enormous quantities of the obligations of their governments, and, if they could use part of them as a basis for credits in this country, it is probable that all of their needs for reconstruction purposes could be supplied. As an alternative plan, however, the governments of France and Belgium and such other nations as need these long-time credits, could organize corporations something like the one above described, which could pass on the value of securities of their own people, and, if approved, could issue their debentures to our corporation on the security of which our corporation would issue its own debentures. The main thing is to convert foreign securities into domestic securities, so as to appeal to domestic investors.

The capital of this corporation should be large. One plan which has been discussed names \$500,000,000. That plan included the use of this capital as a "revolving fund" which would be advanced to the borrowers, the corporation reimbursing itself by the sale of its debentures to the public. I should prefer, if it is possible, to have every dollar advanced to Europe to be the proceeds of the sale of a debenture to an investor. This will make the intervention of the government in the matter merely for the purpose of giving a prestige to the corporation which it would not otherwise have. The capital stock of the corporation, \$500,000,000, or whatever might be decided upon as the proper amount, would not be paid in except as needed to make good losses. Under the plan outlined above there is not much probability of loss, and, consequently, there would be no need of calling on the government for any money if only such funds are advanced to Europe as result from the sale of debentures.

But the necessities of Europe are urgent. Every day's delay in reconstructing the productive and distributing machinery of Europe means delay in making its people self-supporting and encourages the spread of Bolshevism. The money is needed more rapidly than can be provided by "Investment Trusts" or a corporation which depends for funds on a few hundred million dollars of government money and their possible replacement when raised through sale of debentures. These debentures must be offered to every man, woman and child in the United States and there must be a well-devised, far-reaching, systematic plan of campaign for reaching them as they were reached during the Liberty Loan campaign. A campaign conducted along these lines could, without doubt, in a few weeks or months raise enough funds to provide for the most pressing needs of Europe and start its people on the way to self-support and check the spread of discontent.

There is another very decided advantage in this plan; the encouragement it will give to the habit of saving and investing that has begun to develop among the mass of our people as a result of the five Liberty Loan campaigns. At the time the war commenced a very small proportion of our population had ever bought a bond or similar security. At the present time 20,000,000 people are owners of securities. The wealth of a nation is increased by the savings of the individuals, and anything that tends to increase these savings will benefit the whole country. Our people are spenders rather than savers, but a start has been made by many of them toward the habit of saving, which, now that there are to be no more government bond campaigns, will be lost through lack of encouragement. If a security such as has been described is offered to the people and the fact is impressed upon them that they can by saving their money and purchasing these securities provide funds for a purpose that is as important as winning the war, a large part of those 20,000,000 people will doubtless respond and will continue the habit of saving begun by them during the Liberty Loan campaigns. They bought United States government bonds, but they would not buy the bonds of foreign governments and are not educated up to buying other kinds of securities yet, because they know nothing about them. A debenture such as described, issued by a corporation whose capital stock

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is held by the United States Government is something that, unless I misunderstand them, would appeal to these people as a desirable investment and would encourage them to continue the habit of saving they developed during the Liberty Loan campaigns. A habit grows from the constant repetition of the same act, and the oftener our people respond to the opportunities presented to them to save and invest, the stronger will be the saving and investing habit developed in them. I think it is not too much to say that nothing would do more to stabilize the position the United States has suddenly attained in international finance and trade than to have our people acquire the habit of systematic saving, as it is only by that means this country can supply the credit that a nation with a large foreign trade is called upon to extend to its customers.

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